

**Memorandum to the File  
Case Closure**

Alleged Ethics Violations  
Office of VA Secretary, VA Central Office  
(2014-01429-1Q-0004)

The VA Office of Inspector General Administrative Investigations Division investigated an allegation that VA's Secretary, Eric K. Shinseki, engaged in ethical violations that led to personal financial gain. To assess the allegation, we reviewed the internet website [freedomoutpost.com](http://freedomoutpost.com), reviewed Mr. Shinseki's Public Financial Disclosure Reports, and conducted internet research. We also reviewed email records, Federal laws, regulations, VA policy, and other relevant documents.

*Standards*

Federal law prohibits a Government employee from participating personally and substantially as a Government officer or employee, through decision, approval, disapproval, recommendation, the rendering of advice, investigation, or otherwise, in a judicial or other proceeding, application, request for a ruling or other determination, contract, claim, controversy, charge accusation, arrest, or other particular matter in which to his knowledge he, his spouse, minor child, general partner, organization in which he is serving as officer, director, trustee, general partner, or employee, or any person or organization with whom he is negotiating or has any arrangement concerning prospective employment. 18 USC § 208. Federal law also prohibits an officer or employee of the executive branch of the U.S. Government from receiving any salary or any contributions to or supplementation of salary as compensation for his services from any source other than the U.S. Government. *Id.*, at § 209.

Standards of Ethical Conduct for Employees of the Executive Branch state that employees shall not hold financial interests that conflict with the conscientious performance of duty and that employees shall not use public office for private gain. 5 CFR § 2635.101(b)(2) and (b)(7). Further, an employee shall not use his public office for his own private gain, for the endorsement of any product, service, or enterprise, or for the private gain of friends, relatives, or persons with whom the employee is affiliated in a nongovernmental capacity. In addition, an employee shall not engage in outside employment or any other outside activity that conflicts with his official duties. *Id.*, at §§ 2635.702 and 802.

On January 13, 2014, an internet website, [freedomoutpost.com](http://freedomoutpost.com), posted an article titled: *Eric Shinseki: Obama's \$6 Million Dollar Government Educated Ostrich*. The article stated that VA's Secretary "enjoys a bountiful outside income and net worth of \$6 million government connected dollars" and that Secretary Shinseki "rose from his rank of 35<sup>th</sup> richest Obama Cabinet Appointee to his current position of thirteenth wealthiest Obama cabinet member."

Personnel records reflected that after being appointed by the United States President, the United States Senate confirmed Secretary Shinseki on January 20, 2009, and he began his VA employment on January 21, 2009.

In a January 5, 2009, letter to VA's Office of General Counsel, prior to his Senate confirmation and VA employment, Secretary Shinseki wrote:

I am the sole proprietor of my consulting company, which does business as Pegasus Associates, Inc. Upon confirmation, Pegasus Associates, Inc.. will cease engaging in any business. During my appointment to the position of Secretary, Pegasus Associates, Inc., will remain dormant and will not advertise. I will not perform any services for Pegasus Associates, Inc., except that I will comply with any requirements involving legal filings, taxes and fees that are necessary to maintain this company while it is in an inactive status.

The letter also contained the following concerning positions he previously held:

- I have resigned from my position as a member of the board of directors of Honeywell international, Inc. I will continue to participate in a deferred compensation plan with Honeywell international, Inc., but neither I nor Honeywell International, Inc. will make additional contributions to this plan.
- I have resigned from my positions with Ducommun, Inc. and National Interest Security Company, LLC. Because I will continue to have financial interests in these entities, I will not participate personally and substantially in any particular matter that has a direct and predictable effect on the financial interests of either of these entities, unless I first obtain a written waiver.
- I have resigned from my position with Guardian Life Insurance Company of America (Guardian). I no longer hold a financial interest in Guardian except for a cash interest in deferred compensation, which Guardian will pay in a lump sum in accordance with the terms of the deferred compensation plan.
- I have resigned from my position with Haili Moe, Inc., A preexisting stock ownership plan requires Haili Moe to repurchase my 0.3% interest in the company at net book value as of the time of my resignation. I will not participate personally and substantially in any particular matter that has a direct and predictable effect on the ability or willingness of Haili Moe, Inc., to make this payment, unless I first obtain a written waiver.
- I have resigned from my positions with DC Capital Partners, LLC; First Hawaiian Bank; Grove Farm Company, Inc.; and Kaseman, LLC. I no longer hold financial interests in these entities. I also have resigned from my positions with Go For Broke National Education Center.

- I will retain my positions as co-trustee of the Eric K. Shinseki Trust, the Patricia K. Shinseki Trust, and the Eric K. Shinseki Insurance Trust. I will not receive any fees for the services that I provide as a co-trustee during my appointment to the position of Secretary.

On Secretary Shinseki's initial Executive Branch Personnel Public Financial Disclosure Report, signed January 2, 2009, he listed the following income exceeding \$200, other than U.S. Government, for the preceding calendar year:

- DC Capital Partners, LLC – Advisor – \$20,000
- Ducommun, Inc. – Director – \$39,000
- First Hawaiian Bank – Director – \$32,000
- Grove Farm Co. – Director – \$37,704
- Guardian Life Insurance Co. – Director – \$117,664
- Haili Moe, Inc. – Director – \$3,044
- Honeywell, Inc., International Manufacturing – Director – \$50,751
- Kaseman, LLC – Board of Managers – \$12,500
- National Interest Security Co. – Board of Managers – \$35,000
- Pegasus Associates, Inc. – Owner – \$178,000

He listed the following positions held outside the U.S. Government for the preceding calendar year:

- DC Capital Partners, LLC – Member, Board of Advisors – September 2007 to January 2009
- Go For Broke National Education Center – National Spokesperson/Board of Governors – 2006 to January 2009
- Haili Moe, Inc. – Director – August 2004 to December 2008
- Kaseman, LLC – Member, Board of Managers – September 2008 to January 2009
- National Interest Security Co., LLC – Member, Board of Managers – October 2007 to January 2009
- Pegasus Associates, Inc. – Owner – December 2004 to January 2009
- The Eric K. Shinseki Trust – Co-Trustee – November 2005 to Present
- The Eric K. Shinseki Insurance Trust – Co-Trustee – November 2005 to Present
- The Patricia K. Shinseki Trust – Co-Trustee – November 2005 to Present
- U.S. Military Academy, Association of Graduates – Visiting Professor – January 2005 to April 2007

He listed compensation in excess of \$5,000 paid by a single source for the preceding calendar year:

- DC Capital partners, LLC – Member, Board of Advisors
- Haili Moe, Inc. – Board of Directors
- Haverford School – Guest Speaker
- Kaseman, LLC – Member, Board of Managers

- National Interest Security Co., LLC – Member, Board of Managers
- Pegasus Associates, Inc. – Owner
- U.S. Military Academy, Association of Graduates – Visiting Professor

Under Schedule A of the financial disclosure form, Secretary Shinseki listed the valuation of his assets. These are reported on a sliding scale, i.e. \$101–\$1,000; \$1,001–\$15,000; \$15,001–\$50,000; \$50,001–\$100,000, etc., with the highest block being over \$50 million. The highest asset block Secretary Shinseki checked was for residential rental property in Honolulu, HI, at \$500,001–\$1,000,000. The next highest was Honeywell Common Stock Fund at \$250,001–\$500,000, and the third highest were for Honeywell Restricted Stock, Pentagon Federal Credit Union, Guardian Life Insurance, Fidelity Cash Reserves (401K), and Vanguard Prime Money Market Fund (SEP IRA) at \$100,001–\$250,000 each.

Secretary Shinseki's Executive Branch Personnel Public Financial Disclosure Reports, dated May 17, 2010; May 16, 2011; May 1, 2012; and May 12, 2013, reflected that he reported no compensation in excess of \$5,000 paid by one source, and the positions he held outside the U.S. Government were limited to:

- The Eric K. Shinseki Trust – Co-Trustee – November 2005 to Present
- The Eric K. Shinseki Insurance Trust – Co-Trustee – November 2005 to Present
- The Patricia K. Shinseki Trust – Co-Trustee – November 2005 to Present

Under Schedule A of the most recent financial disclosure form, Secretary Shinseki listed the valuation of his assets. These were again reported on a sliding scale, and the highest asset blocks Secretary Shinseki checked were for residential rental property in Honolulu, HI, Honeywell Deferred Compensation, and Honeywell Common Stock Fund at \$500,001–\$1,000,000 each. The second highest was Pentagon Federal Credit Union at \$250,001–\$500,000, and the third highest was Honeywell Common Stock at \$100,001–\$250,000.

These entries reflected that the valuation of Secretary Shinseki's residential rental property remained within the same sliding scale bracket; however, many other assets increased to the next higher block. For example, in 2009, the value of his Honeywell Common Stock Fund was \$250,001–\$500,000, yet by 2013, it was valued at \$500,001–\$1,000,000. In another example, his Pentagon Federal Credit Union account was at \$100,001–\$250,000, but by 2013, it was valued at \$250,001–\$500,000. Although the entries reflected a higher amount by the checked block on the financial disclosure, this could be reflective of only a few to hundreds of dollars' difference, depending on the actual balances at the time the forms were completed, but the forms do not require the exact balances.

Furthermore, a VA Office of General Counsel attorney, as the agency ethics official, reviewed and signed each of Secretary Shinseki's financial disclosures, certifying that "on the basis of information contained in this report, I conclude that the filer is in compliance with applicable laws and regulations." Additionally, an Office of Government Ethics official also signed the forms.

In addition to reviewing the public financial disclosure reports and related ethics advice, we also obtained copies of the Designated Agency Ethics Official's (DAEO's) legal advice on invitations and events concerning Secretary Shinseki. The materials ranged from February 6, 2009, about 2 weeks after the Secretary took office, to March 5, 2014, shortly before we received the materials.

The materials covered a wide range of events, including speaking invitations, requests to endorse books or write forwards for books by authors, invitations to serve on boards or as chairs of events, attendance at social and political functions, and even personal invitations to Secretary Shinseki and Mrs. Shinseki. Without listing or cataloging the entire contents, the materials reflected a consistent pattern of the Secretary's office seeking ethics advice from the DAEO on the propriety of accepting a particular invitation, award, or engagement, with the DAEO attorneys responding in the form of emails and/or white papers whether and to what extent the Secretary may lawfully accept the invitation, award, or engagement. For example, the Secretary was frequently invited to address veterans or military groups, particularly those seeking to honor the Secretary's Japanese-American heritage, WWII Japanese-American Veterans, or his service in Vietnam, as well as numerous charitable and philanthropic causes. The subjects included offers of free attendance at events, travel expenses, use of an official vehicle, gifts, and the use of his title or position. In several cases, the advice rendered was that the Secretary could not accept the item or could not use his official title, must pay personally for the item, or could not participate in the event. In other instances, the advice was that there was no legal impediment to acceptance, but the issue was a policy or program decision for the Secretary to make as to whether or not he accepted. Emails reflected that the Secretary declined many invitations, including the only one we saw that involved an entity in which he had a prior outside financial interest (Ducommun, Inc.).

### *Conclusion*

We found that on January 5, 2009, Secretary Shinseki told VA OGC that his consulting company, Pegasus Associates, Inc., would cease engaging in any business; he resigned various positions at private entities; and that he would not participate personally and substantially in any particular matter that had a direct and predictable effect on their financial interests. Secretary Shinseki fully disclosed all his financial assets and income as required on his annual Public Financial Disclosure Reports, and VA OGC and an Office of Government Ethics official reviewed and signed each annual report. Based on the information Secretary Shinseki provided in his annual reports, we did not find any financial disclosures that failed to comply with applicable laws and regulations.

Although we did not go behind the invitations and ethics advice to verify the details, on their face they appeared to comply with the applicable rules. Our overall impression of this large body of material was that the Secretary has been concerned with seeking advice from the DAEO to ensure that he complied with the applicable ethics rules for these invitations, and, as with his financial disclosure reports, he evidenced a pattern of disclosing relevant information and sought advice on ethics issues. We found no



violations of any ethics rules in the materials we reviewed. We are therefore closing this allegation without a formal report or memorandum.

Prepared By:

[REDACTED]

3/25/2014  
Date

Approved By:

[REDACTED]

3/25/2014  
Date